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No. 84-1795

IN THE

Supreme Court of the United States

OCTOBER TERM 1984

TECHNOGRAPH, INC.,

Petitioner,

v.

GENERAL MOTORS CORPORATION,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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Questions Presented

1. Where the statute (35 U.S.C. §284) explicitly provides that upon a finding of patent infringement, the court shall award "*in no event* less than a reasonable royalty for the use made of the invention by the infringer" and where the lower courts found that the defendant infringed in the manufacture of 1.3 *billion* non-bumper parts, did the courts below commit reversible error of law in holding that the award of no royalty whatsoever complies with the statute? The holding of the Court of Appeals for the Third Circuit below is in direct conflict with decisions of the Federal Circuit and Sixth Circuit which hold that the "literal terms of the statute set a reasonable royalty rate as the minimum below which an award of damages may not fall."

2. Where the statute (28 U.S.C. §1961) explicitly provides that "Interest shall be allowed on any money judgment . . ." and where it is undisputed that defendant delayed in the payment of postjudgment interest for fourteen months, thus gaining a windfall in the amount of $600,000, did the courts below commit reversible error of law in holding that the statute did not require the payment of interest for the delinquent payment? The dissent below stated that "By allowing General Motors the interest-free use of delinquent payments, the court is depleting plaintiffs' real recovery as surely as if it had simply reduced the amount of their award."

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* The only Petitioner in this case is Technograph, Inc., a North Carolina Corporation. The other named plaintiffs below—Devex Corporation, William C. McCoy, Jr., individually and as an Executor of the Estate of William C. McCoy, deceased, Theodore A. TeGrotenhuis, Frederick B. Ziesenheim, Marjorie TeGrotenhuis, and Katherine M. Bassett —no longer have any interest in the litigation.

The Respondent is General Motors Corp., a Delaware Corporation.

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Opinions Below

The Opinion of the Court of Appeals on the interest question is reported at ____ F.2d ____ (3d Cir. 1984) (1a).* That Court's denial of the petition for rehearing is reported at ____ F.2d ____ (3d Cir. 1985) (49a). The Opinion of the District Court is reported at 569 F. Supp. 1354, 1365-8 (D. Del. 1983) (19a).

The Opinion of the Court of Appeals affirming, *inter alia*, the award of no royalty for infringement of 1.3 billion non-bumper parts is reported at 667 F.2d 347 (3d Cir. 1981) (200a). The Opinion of the District Court on this issue is reported at 494 F. Supp. 1369 (D. Del. 1980) (177a). The report of the Special Master, unreported, is set forth at 50a.

* Citations are to the Appendix, separately bound, designated by page number and "a". Emphasis is supplied throughout unless otherwise noted.

Jurisdiction

The Judgment of the Court of Appeals was entered on December 5, 1984 (47a). A timely petition for rehearing was denied on February 12, 1985 (49a), and this petition for a Writ of Certiorari was filed within 90 days of that date. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

Statutes Involved

Question one involves §284 of the Patent statute, 35 U.S.C. which provides in part:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.
>
> When the damages are not found by a jury, the court shall assess them. . . .
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Question two involves former 28 U.S.C. §1961 which provides in pertinent part:

> "Interest shall be allowed on any money judgment in a civil case recovered in a district court. . . . Such interest shall be calculated from the date of the entry of the judgment, at the rate allowed by State law."

Statement of the Case

The basis for federal jurisdiction in the United States District Court is the patent laws of the United States. 35 U.S.C. §1331.

This case was here at an earlier stage: this Court decided that prejudgment interest should ordinarily be granted on a reasonable royalty award for patent infringement in the manufacture of bumpers, "to ensure that the patent holder is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement." *General Motors Corp. v. Devex Corp.*, 416 U.S. 648 (1983) (248a). The Opinion of the Court recites the earlier litigation history (242a).

This action for patent infringement was commenced in 1956. The patent covers a lubricating process used in cold forming metal car parts by pressure. In 1963, Claim 4, the only claim of the patent involved, was held valid, 321 F.2d 234 (7th Cir. 1963) *cert. denied*, 375 U.S. 971 (1964). It is also settled that Claim 4 was infringed by General Motors ("GM") in the production of bumper and non-bumper (cold extruded) parts. 467 F.2d 257 (3d Cir. 1972) *cert. denied*, 411 U.S. 973 (1973).

The pertinent starting point for the present phase is the final judgment of October 6, 1980 (*Devex Corp. v. General Motors Corp.*, 494 F. Supp. 1369 (D. Del. 1980), *aff'd* 667 F.2d 347 (3d Cir. 1981) (200a), wherein plaintiffs were awarded the reasonable royalty on bumpers, prejudgment interest, costs, and postjudgment interest at the effective Delaware rate (198a). Pursuant thereto, General Motors paid $20 million representing the sum of the reasonable royalty on bumpers, prejudgment interest and costs (4a, 13a).

Upon the accounting before the Special Master, plaintiffs were awarded nothing for GM's infringement of 680 million non-bumper parts. The District Court modified

this, in finding, contrary to the Master, that certain accused rinse practices infringed (thus increasing infringement to 1.37 billion non-bumper parts). The District Court, however, accepted the Master's conclusion that no royalty whatsoever should be awarded on the massive infringement of non-bumper parts. The Third Circuit unanimously affirmed the judgment of the District Court. Both parties petitioned this Court.

In May 1982, this Court granted certiorari only on the issue of prejudgment interest and unanimously affirmed the award, 461 U.S. 648 (1983) (242a). At that time, this Court, without setting forth any reason, denied plaintiffs' petition for a writ of certiorari. The Petition sought review of the lower courts' failure to award any royalty whatsoever for GM's massive infringement of cold extruded non-bumper parts.*

Recently, the Federal Circuit (the Court with exclusive jurisdiction over patent appeals) has rendered decisions that are flatly inconsistent with the Third Circuit's decision failing to award a royalty on non-bumper parts. Those Federal Circuit decisions and a decision of the Sixth Circuit hold that an award of no royalty is simply contrary to 35 U.S.C. §284, which requires that at least a reasonable royalty must be awarded whenever there is a finding of infringement. This conflict in the Circuits is the basis for Question One.

Beyond all doubt, the Court of Appeals committed critical errors of law in rejecting the contention that "the award of no damages does not comply with the statute" (231a). The explicit statutory requirement that the Court *shall* award damages "*in no event* less than a reasonable royalty," whenever infringement is found, mandates that a zero royalty is impossible under Section 284.

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* "It is 'well settled that . . . denial of certiorari imparts no implication or inference concerning the Court's view of the merits.'" *Hathorn v. Lovorn*, 457 U.S. 255, 262 (1982). *Accord: Hughes Tool Co. v. Trans World Airlines, Inc.*, 409 U.S. 363 (1973).

In this very case, this Court considered the legislative history behind 35 U.S.C. §284, stating (247a):

> "Congress sought to ensure that the patent owner would in fact receive full compensation for any damages he suffered as a result of the infringement."

The Court further held: "When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly" (246a). Here Congress was *explicit* in declaring that "the Court *shall* award damages adequate to compensate for the infringement *but in no event less than a reasonable royalty.*"

If non-bumper infringement were the sole issue in this case, undoubtedly the lower courts would have granted plaintiffs a reasonable royalty after 28 years of proving validity and infringement. But, apparently, because plaintiffs received damages for bumper infringement, the lower courts granted GM a massive windfall for its infringement on 1.3 billion non-bumper parts. This result should not remain as precedent for the district courts to follow and thereby evade the explicit Congressional mandate.

With respect to Question Two—postjudgment interest—three disputes between plaintiffs and GM prevented final disposition of the case at the District Court level: (i) plaintiffs contended that the effective Delaware rate on October 6, 1980 was 16%, whereas GM argued for 6%; (ii) plaintiffs claimed interest for GM's delay in the payment of postjudgment interest after it paid the reasonable royalty in July 1982 and for its delay in the payment of postjudgment interest after it paid the *prejudgment* interest in June 1983; and, (iii) plaintiffs moved, over GM's opposition, for interest on the judgment for costs.

1. During the period that the judgment of October 6, 1980, was on appeal by GM, the District Court declined, in accordance with the contention of GM, to determine the effective Delaware rate for computing postjudgment interest (38a). Only following the affirmance by this Court of the prejudgment interest award, did the District Court

decide the Delaware rate applicable for postjudgment interest. That decision was for 16% in accordance with plaintiffs' contention. *Devex Corp. v. General Motors Corp.*, 569 F. Supp. 1354, 1365-8 (1983) (19a). GM paid postjudgment interest at the rate of 6% and appealed as to the balance.

2. In the same decision, the District Court denied plaintiffs' claim for damages for the late payment of the postjudgment interest beyond the dates of payment of the reasonable royalty and prejudgment interest on which the postjudgment interest had accrued (26a). Plaintiffs appealed from that part of the order.

3. Shortly thereafter, the District Court ordered GM to pay interest at 16%, on the cost award, from October 6, 1980. *Devex Corp. v. General Motors Corp.*, 577 F. Supp. 429 (1983). GM appealed from that Order.

The Court of Appeals affirmed the District Court's Orders on all three appeals (1a).

On both of GM's appeals, the affirmance was unanimous. On plaintiffs' appeal, the Court of Appeals' affirmed by a 2 to 1 vote. Judge Gibbons, in a strong dissent, stated: "By allowing General Motors the interest-free use of delinquent payments, the court is depleting plaintiffs' real recovery as surely as if it had simply reduced the amount of their award" (16a). The dissent's theory was different than plaintiffs but both sought the same result—to deprive GM of the "interest-free use of delinquent payments" and fully compensate plaintiffs.

GM's payment of postjudgment interest in the amount of $2.468 million on the reasonable royalty was due on July 7, 1982; it was deposited into Court on August 30, 1983 (approximately 14 months late). Postjudgment interest in the amount of $4.701 million on *pre*judgment interest was due on June 6, 1983; it was deposited into Court on August 30, 1983 (almost 3 months late). The claim for late payment amounts to $653,601. The rejection of these claims is the basis for Question 2.*

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* On September 9, 1983, GM released postjudgment interest at an annual rate of only 6%. The delay in payment of postjudgment interest beyond September 9, 1983 is not in issue here.

REASONS FOR GRANTING THE WRIT

This Court should review the decision of the Third Circuit awarding no reasonable royalty whatsoever for infringement of 1.3 billion non-bumper parts because it conflicts with decisions of the Federal Circuit (with exclusive jurisdiction over patent appeals) which hold that 35 U.S.C. §284 mandates no less than a reasonable royalty whenever infringement is found.

1. A Zero Award is Not a Reasonable Royalty as a Matter of Law.

The result reached in this case starkly contradicts the plain meaning of the statute providing for the award of damages for patent infringement, 35 U.S.C. §284:

> "Upon finding for the claimant the court *shall* award damages adequate to compensate for the infringement *but in no event less than a reasonable royalty for the use made of the invention by the infringer.*"

The Third Circuit's holding below simply ignores the express mandate of that statute (231a):

> "Plaintiffs make an additional argument with regard to non-bumpers: the statute provides that the court 'shall' award damages in an amount not less than a reasonable royalty, and *that the award of no damages does not comply with the statute. We reject this contention.*"

The decision is in conflict with recent decisions of the Federal Circuit (the Court with exclusive jurisdiction over patent appeals), and of the Sixth Circuit.

In *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1561 (Fed. Cir. 1983), the Federal Circuit *rejected* the infringer's method of calculating damages because it could have led to the result that *"no damages would be awardable"* upon a finding of infringement. The Court was explicit in ruling out such a result:

> "This result would be contrary to the express statutory provision that the patent holder shall be awarded 'no less than a reasonable royalty for the use made of the invention by the infringer.' Thus, as held by this court in *Bandag, Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1583 (1983): 'A reasonable royalty . . . is . . . the floor below which damages shall not fall.'"

The result reached by the Third Circuit in this case—the award of "no damages" whatsoever, notwithstanding a finding of massive infringement—is in direct conflict with the Federal Circuit's holding in *Stickle. Accord: Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078 (Fed. Cir. 1983) ("If actual damages cannot be ascertained, then a reasonable royalty *must* be determined."); *Trans-World Manufacturing Corp. v. Al Nyman & Sons, Inc.*, 224 U.S.P.Q. 259, 270 (Fed. Cir. 1984).

The Sixth Circuit has adopted the same standard as the Federal Circuit:

> "The literal terms of the statute set a 'reasonable royalty rate' as the minimum below which an award of damages may not fall."

Armco, Inc. v. Republic Steel Corp., 707 F.2d 886, 891 (6th Cir. 1983).

It is well settled that the courts fix a reasonable royalty on the basis of a willing-buyer/willing-seller concept in a hypothetical license negotiation. *Stickle*, 716 F.2d at 1561; *Hanson*, 718 F.2d at 1077. In *Hanson*, the Federal Circuit held (718 F.2d at 1081):

> [A]s the Court of Claims noted in *Tektronix, supra,* 552 F.2d at 349: "[W]hether . . . [the] defendant . . . [was] never willing to pay a reasonable royalty is irrelevant . . . The willing-buyer/willing-seller concept is . . . employed by the court as a means of arriving at reasonable compensation and its validity does not depend on the actual willingness of the parties to the lawsuit to engage in such negotiations. . . . There is, of course, no actual willingness on either side . . . " *Panduit,* 575 F.2d at 1159.

Here, as a matter of law, the licensor and licensee would have agreed on a royalty rate "if both parties genuinely wished[ed] to execute a license in an arm's length transaction." *Hanson,* 718 F.2d at 1077. The effect of the decision below was to allow patent "property rights to be seized and infringed without remedy . . . ," a "travesty" of justice. *United States Frumentum Co. v. Lauhoff,* 216 F. 610, 616 (6th Cir. 1914).

2. The Importance of The Henricks Process in Non-Bumper Making to GM.

In suggesting that "the Devex patent was relatively unimportant in non-bumper making" (231a), the Third Ciruit ignored the massive infringement (to the extent of 1.3 billion parts) that GM actually practiced.

The Court thus disregarded Chief Judge Markey's* holding in *Panduit Corp. v. Stahlin Bros. Fibre Works,* 575 F.2d 1152, 1160 (6th Cir. 1978) that:

> "Massive infringement of this type *'is an admission by conduct'* that the patented process occupied 'a uniquely favorable position in the market place.'"

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* Now Chief Judge of the Federal Circuit. Then Chief Judge of the Court of Customs and Patent Appeals, sitting by designation in the Sixth Circuit.

As a matter of law, the manufacture of 1.3 billion infringing parts by the Devex process* is not "relatively unimportant." On the contrary, inasmuch as most of the infringement occurred after the 1963 holding of validity, the Henricks process "occupied a uniquely favorable position" in the market place, otherwise GM would not have selected the Devex process in the cold forming of non-bumper parts and used it extensively. This is objective evidence and an "admission by conduct" of the value of the Henricks process to GM.

The experience at the Saginaw plant where GM made steering gears is instructive. Approximately one-half of GM's total savings on non-bumper parts were generated at Saginaw Steering Gear Division. High quality was vital in manufacturing steering gears, a critical part. That need was one of the reasons for the use of the Henricks lubricating system. *That division produced over 300 million parts that were found by the District Court to be infringing.*

The Henricks process was so essential at Saginaw that once the process was started for extruding particular parts, *the division never deviated from that process throughout the life of the patent except as to one part out of twenty.* Clearly, the finding below that GM used the Henricks process on 90% of Saginaw's cold extrusion production in the period from 1957 through the patent's expiration in 1969 demonstrates that the Henricks process was *dominant* at that division. Thus, it was simply an error of law that the Henricks process was of "relatively slight importance to GM" at Saginaw.

This Court has held in *Dowagiac Manufacturing Co. v. Minnesota Plow Co.*, 235 U.S. 398, 404 (1915) that it is permissible for the patent holder to show the value of a patent "by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the *extent of the use involved.*"

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* The patented process is referred to as either the "Henricks" or "Devex" process.

It is plain that the Court's failure to award plaintiffs anything for such extensive infringement is a subversion of the Congressional mandate. What is the purpose of a finding of infringement after 28 years of litigation, if there is a failure to award a reasonable royalty, or indeed any royalty at all?

3. As a Matter of Law There was "Enough Evidence" in the Record to Allow the Factfinder to Formulate a Reasonable Royalty on Non-Bumper Parts.

This Court has held in *Dowagiac*, 235 U.S. at 403 that: "only reasonable approximation attained through the testimony of experts" is required of plaintiffs in their "initiative burden" in proving damages in a patent case.

Plaintiffs followed the well-settled rule for determining a reasonable royalty which the Federal Circuit has recently reaffirmed in *Hanson:* "Reliance upon estimated cost savings from use of the infringing product is a well settled method of determining a reasonable royalty (citing cases)." 718 F.2d at 1080-1081. However, the Third Circuit below concluded that "plaintiffs are not entitled to collect any royalty for non-bumper infringement" on 1.3 billion parts notwithstanding plaintiffs' reliance upon GM's cost savings (231a-232a):

> "The statute requires the award of a reasonable royalty, but to argue that this requirement exists even in the absence of any evidence from which a court may derive a reasonable royalty goes beyond the possible meaning of the statute. Even if there is no burden of proof on the party seeking damages in this type of case to come forward with a reasonable royalty, there must at the least be enough evidence in the record to allow the factfinder to formulate a royalty. Here, plaintiffs' proposed standard was vitiated by the facts, and there was insufficient evidence in the record upon which the fact finder could rely in formu-

> lating an alternative. There was no non-bumper industry-wide offer for the court and Special Master to use in arriving at a reasonable royalty." *

On the contrary, there was substantial evidence from which the Court could formulate a reasonable royalty on the basis of a hypothetical negotiation.

a. Plaintiffs' Standard of Comparison for Non-Bumper Parts Was Clearly "Appropriate" Where it Was the Very Same Standard GM Used in the Regular Course of Business to Compute its Savings.

Plaintiffs chose as the standard of comparison GM's actual non-infringing manufacturing method in making non-bumper parts, namely, machining or hot forging. The uncontroverted evidence is that GM used this very comparison in the regular course of business to compute its savings at the time it converted to the use of the Henricks process. GM, in the regular course of business, prepared Appropriation Requests for approval by top management, which contained an analysis of savings to be realized in a conversion from the prior manufacturing method to the Henricks process (a cold extrusion process). These "Appropriation Requests"—which were all included in the record below—demonstrate that GM itself compared the advantages of the Henricks system with GM's prior, actual manufacturing method—machining or hot forging—in order to calculate GM's savings. Furthermore, GM's conduct in this regard was consistent with the industry-wide practice of calculating savings by comparing cold extrusion to traditional machining methods.

The Third Circuit erroneously determined that "plaintiffs failed to adduce a *reasonable* standard of comparison

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* That was a clear error of law. In fact, there was an industry-wide offer and it was not restricted to bumpers; it applied to all items. The Special Master found (148a): "The license offer provided for a royalty based on three-fourths of one percent (.75%) of the net purchasing or sale price of the *item* so produced, or one percent (1%) of manufactured cost. . ."

upon which to premise such an award . . ." (231a). Since plaintiffs' standard of comparison was the same as the one used by GM in the regular course of business, it was "reasonable" as a matter of law.

In the leading case of *Gordon Form Lathe Co. v. Ford Motor Co.*, 133 F.2d 487, 494-95 (6th Cir. 1943), the Sixth Circuit held that the plaintiff had to select only one appropriate standard of comparison, leaving to the defendant, who did not accept it, the burden of proving a better standard. The Court further held that a non-infringing practice in actual use by the infringer at the beginning of the infringement period is an "appropriate standard of comparison." *Id.* at 498. Thus, where the plaintiffs' chosen standard is defendant's actual use, plaintiffs satisfy their "initiative burden" in showing defendant's cost saving by adopting the infringing process. Defendant had used machining and hot forging in manufacturing non-bumper parts at the time it switched to the patented process.* Plaintiffs' choice of machining and hot forging as their standard of comparison thus comes squarely within *Gordon Form Lathe* and the other authorities approving reliance on actual practice by the infringer as an appropriate standard of comparison.

The Federal Circuit recently held in *Hanson*, 718 F.2d at 1079: "The key element in setting a reasonable royalty . . . is the necessity for return to the date when the infringement began," quoting the Sixth Circuit in *Panduit*, 575 F.2d at 1158. That is precisely what plaintiffs followed in choosing their standard of comparison—the manufacturing process GM used at the time "infringement began."

Notwithstanding the Master's conclusion to the contrary (110a), it was not plaintiffs' burden to prove savings from the Henricks process over "other non-bumper cold forming alternatives". In *Gordon Form Lathe* (133 F.2d at 494-5),

* Moreover, defendant concedes that it *continued* to use hot forging or machining *on other parts* throughout the *entire patent period.*

the Court specifically held that the plaintiff was not required "to prove a negative" (*Id.* at 495):

> "it is *unnecessary* for the owner of the patent to prove affirmatively that at the time of the infringement, a particular process or thing was better than any other except his invention. *This requirement would be unreasonable because impossible of performance.*"

By requiring that plaintiffs prove cost savings by comparing the Henricks process with "other non-bumper cold forming" processes, the lower courts placed a burden upon plaintiffs that was "impossible of performance" and, therefore, "unreasonable". Accordingly, the Master's premise was erroneous and the affirmances by the District Court and Court of Appeals were, likewise, erroneous.

At the very least, there was "enough evidence" upon which a court could award a reasonable royalty.

b. Plaintiffs produced expert testimony to prove GM's savings.*

Plaintiffs' expert, Robert Willard, formerly a financial analyst with Ford Motor Company, prepared and reviewed appropriation requests. Mr. Willard's detailed analysis of savings from GM's appropriation requests was undisputed. GM's resultant savings were $61 million based on the District Court's finding that 1.3 billion cold extruded parts were infringed. Of those savings, plaintiffs claimed a reasonable royalty of $34 million.

Here, the parties agreed that a reasonable royalty was a fair share of GM's savings. Mr. Edward Haight, defendant's expert, testified that a percentage of savings due to the change to an infringing practice is a fair method of fixing

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* 35 U.S.C. §284 provides: "The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances."

a reasonable royalty. He stated that the range is "up to 50 percent" and that 25% to 33 1/3% may be "a little niggardly."

The Master acknowledged that plaintiffs' experts, Richard Whiting, Esq.* and George Church, Esq.,** were "knowledgeable, experienced lawyers with good credentials in the area of patent license agreements" (151a). Mr. Whiting prepared an analysis for each accused part and arrived at a reasonable royalty rate for each. Mr. Church took many factors into consideration, including the massive infringement and great monetary benefits to GM. He testified that if GM believed that a non-infringing process could produce equally beneficial results, it would not have infringed to the extent of 1.3 billion parts.

The Master rejected the well-settled savings method for calculating a reasonable royalty, *see Hanson* above. He held that plaintiffs should have provided an alternative royalty measure such as a percent-of-sales, as they did with regard to bumpers. The Master stated: "[B]y relying solely on savings and gains, plaintiffs supplied an all or nothing-at-all choice." (110a). However, in November 1979, before the Special Master rendered his report, both parties advised the Master that "reasonable negotiators would not use sale

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* Mr. Whiting spent over three hundred hours considering the various factors that are present in this case. He is the senior partner in Davis, Hoxie, Faithfull and Hapgood, has been practicing patent law since 1929 and has taught patent law at Boston University School of Law. He has negotiated many licenses for both licensors and licensees. During World War II he organized and served as counsel for the Patent Royalty Revision Board which negotiated and reviewed government procurement contracts to assure that royalty payments on these contracts were reasonable. In his position as counsel for the Board, Whiting's duty was to consider and propose to the Board what royalties were reasonable.

** Mr. Church has had nearly 30 years experience in patent law and is a former director of licensing for Sun Oil Company. He has negotiated at least sixty license agreements, many of which were with the major oil companies.

prices as a royalty base" for cold extruded parts.* Thus, plaintiffs were remitted to some other measuring rod to establish a reasonable royalty, i.e., percentage of savings which both parties and their experts agreed was a proper method of determining a reasonable royalty.

c. After plaintiffs set forth their standard of comparison, the burden shifted to GM.

In *Gordon Form Lathe* after the plaintiff proved an acceptable standard of comparison, the burden shifted to the infringer "'to prove the availability to it of a machine or process superior to that of the grinder tendered by [plaintiff] The Gordon Company.'" 133 F.2d at 495. GM did not even attempt to prove the savings in comparing the Henricks process to other cold forming processes. GM failed to produce such savings because it conceded that no "cold forming processes used by defendant . . . achieve[d] the same results as those achieved from the use of" the Henricks process (response to an interrogatory).

Here, where the burden shifted to GM and it failed to refute the prima facie showing that its savings were $60,823,362 (in using the Henricks process compared to the prior method in the manufacture of 1.37 billion parts), the Court should have used that savings figure as a proper base upon which to calculate a reasonable royalty. Based on the legal standards and record facts, including expert opinion, plaintiffs asked for a reasonable royalty of $34,760,245, an average of *2½¢ per part.*

The Third Circuit's conclusion of law that there was an "absence of any evidence" here from which a reasonable royalty could be formulated is a shocking result—plainly contrary to the substantial record evidence.

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* GM provided plaintiffs only with selling prices for eight individual cold extruded parts. The remaining forty-seven infringing parts were only sold as part of an assembly. The parties agreed that assembly prices could not be used as a royalty base because there was no way to apportion the selling price of the assembly to the infringing part.

A zero award is not a reasonable royalty as a matter of law and thus contradicts the explicit mandate of 35 U.S.C. §284, which requires that the Court award at least a reasonable royalty upon a finding of infringement. Plaintiffs spent over 28 years proving validity and infringement on over 1.37 billion non-bumper parts and then diligently followed the only available law to prove cost savings under a process patent *(Gordon Form Lathe, etc.)*. As a result of the decision below, plaintiffs have been whipsawed. The lower courts placed an impossible burden on plaintiffs which had the draconian effect of awarding plaintiffs nothing for GM's massive infringement on non-bumper parts. A manifest injustice has occurred here. It should be corrected by this Court in order to secure the proper administration of the patent laws. A remand is necessary to award at least "a reasonable royalty."

28 U.S.C. §1961, the final judgment and appellate mandates in this case require that GM should pay interest for the delay in the late payment of post-judgment interest.

Interest is an incident of some principal amount. It falls due when the principal amount matures. Delay in its payment beyond that date properly accrues interest. *Stewart v. Barnes*, 153 U.S. 456, 462 (1894). GM was required to pay the postjudgment interest on the same date that it paid each part of the judgment—namely, the reasonable royalty on bumpers on July 7, 1982, and the prejudgment interest on June 6, 1983. 28 U.S.C. §1961 requires that GM compensate plaintiffs for the delay.

The October 6, 1980, final judgment "ordered" GM to pay, *inter alia*, "postjudgment interest from the date of entry of this judgment at the rate allowed by State law." (199a). In May 1982, this Court rejected GM's petition for certiorari, except on the issue of *prejudgment* interest. Thus the Third Circuit entered an order on June 30, 1982, requiring GM to pay the reasonable royalty (on bumpers)

plus postjudgment interest thereon. On July 7, 1982, GM paid the reasonable royalty on bumpers, but refused to pay postjudgment interest that accrued on the reasonable royalty portion of the judgment. Plaintiffs then made a motion in the District Court to require GM to pay the postjudgment interest at 16%—the rate allowed by the Delaware statute. Because of GM's opposition, based on its appeal to this Court, the District Court deferred determination of the postjudgment interest rate.

After this Court affirmed the prejudgment interest award, GM paid prejudgment interest on June 6, 1983. Thereafter, the District Court, in its order of September 9, 1983, agreed with plaintiffs' contention that the applicable Delaware rate was 16% and rejected GM's contention that the rate was only 6%. That order was unanimously affirmed by the Court of Appeals (5a-7a).

GM deposited postjudgment interest in the amount of $7.17 million into Court on August 30, 1983, but only agreed to the release of $2.688 million to plaintiffs on September 9, 1983 (representing postjudgment interest at only 6%).

Therefore, GM enjoyed the free use of postjudgment interest in the amount of:

(i) $2.468 million (on the reasonable royalty) for the period July 7, 1982, through at least August 30, 1983 (approximately 14 months), and

(ii) $4.701 million (on the prejudgment interest) for the period June 6, 1983, through at least August 30, 1983 (almost 3 months).

Even though the postjudgment interest on the reasonable royalty matured when the reasonable royalty was paid, in July 1982, and the postjudgment interest on the prejudgment interest matured when the prejudgment interest was paid, in June 1983, the District Court, affirmed* by the

* The Third Circuit disagreed with the District Court's application of state law on this issue. The Third Circuit held that federal law, 28 U.S.C. §1961 (1976) governed this issue.

Court of Appeals in a split decision, refused to award damages for the late payment of the postjudgment interest.

The majority refused to award interest on the basis that the amount of postjudgment interest was *unliquidated* until the District Court's September 9, 1983 order fixing the postjudgment interest rate at 16% (12a, 26a).

The majority erred in making "liquidation of amount" the *sine qua non* for the allowance of interest under federal law.*

This Court, in this very case, rejected the common law rule requiring liquidation as the basis for an interest award. Pursuant to 35 U.S.C. §284, this Court affirmed an award of (prejudgment) interest against GM on an *unliquidated* reasonable royalty amount. The Court observed that the underlying purpose of §284 is to provide "full compensation for the infringement" (247a).

The Court of Appeals below unanimously affirmed an award of postjudgment interest from October 6, 1980, on costs which were *not liquidated* in amount until October 11, 1983, with the rate not fixed until December 1, 1983 (12a). The majority below overlooked its own rule announced in the same decision awarding interest on *unliquidated* costs. In that connection, the Court rejected the common law rule of liquidation as the basis for an interest award, stating that the "historical rule . . . antedates the modern practice of applying economic and business principles to judicial administration. . . " (13a). Applying said principles dictates the allowance of interest on the money withheld by GM of which plaintiffs have been deprived.

In any event, we note that the amount of postjudgment interest was not truly unliquidated, since the principal

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* See Dobbs, *Remedies* (1973) p. 166: "Courts are agreed without dissent on the principle that interest will be awarded on unliquidated but *ascertainable* claims." It is a dispute on facts, not law, that renders a claim unascertainable. *Dorey v. Dorey*, 609 F.2d 1128 (5th Cir. 1980).

amount was fixed and the rate was spelled out in the Delaware statute. Only a legal determination remained; namely, whether Delaware law prescribed 16% or 6% on the October 6, 1980, judgment, with respect to which plaintiffs were correct and GM incorrect. GM's erroneous interpretation of the law is certainly no reason for giving it a windfall. In *Dorey v. Dorey*, 609 F.2d 1128, 1133 (5th Cir. 1980) the Fifth Circuit awarded interest on an unsatisfied former judgment on which interest had accrued, stating:

> "Mr. Dorey also contends that the California judgment did not specify the rate of interest applicable. We need do no more than note that the judgment set interest at the rate 'allowed by law.'"

The majority erroneously distinguished *Dorey v. Dorey** on the basis that (11a):

> "the postjudgment interest cannot be considered an unsatisfied former judgment, because the amount of the judgment itself was in dispute until the Supreme Court decision in May 1983, and the rate of postjudgment interest was not fixed until August 1983."

This overlooks what the majority itself recognized; namely, that the "final judgment dated October 6, 1980, order[ed] postjudgment interest" (10a n.8).**

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* *See also United States v. Hannon*, 728 F.2d 142, 145 (2d Cir. 1984); *Hellenic Lines Ltd. v. Gulf Oil Corp.*, 359 F.2d 403, 404 (2d Cir. 1966).

** Here, the Court disagreed with the District Court's reason for denying interest on postjudgment interest. The District Court denied interest on the ground that "as of this time, the Court has not ordered the payment of postjudgment interest" (10a). The Court of Appeals disagreed: "The [District] court apparently overlooked its final judgment dated October 6, 1980, ordering postjudgment interest at the rate allowed by state law" (10a).

The majority is further in error in stating that the "rate" was "not fixed until August 1983" (11a): the October 6, 1980, judgment fixed the "rate" as "the rate allowed by state law" (10a, n.8). Section 1961 does not require that the rate be stated in a number; nor does it, like 35 U.S.C. §284, require liquidation of an amount for interest to accrue thereon.

Indeed, the common law concept of liquidation as the necessary basis for an interest award stems from the period when interest was disfavored as compensation and was allowed only as a quasi-penalty. See Dobbs, *supra* at p. 173:

> *"If the plaintiff has actually lost the use of his money,* or the use of any other form of property, *and if compensation is the goal of damages, he should be entitled to interest* or some other measure of his loss *whether the exact sum due him as principal is ascertainable or not."*

The failure to award damages for delay in payment of postjudgment interest has simply given GM a discount from the amount of postjudgment interest awarded, contrary to the statutory mandate and sound economic and business principles.* As Judge Gibbons, dissenting below, stated (16a):

> "The majority's holding allows General Motors to delay payment of long-overdue interest with impunity. If no interest is assessed, General Motors simply has no incentive to pay the judgments promptly. This appeal has allowed General Mo-

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* See *Catalano, Inc. v. Target Sales, Inc.*, 446 U.S. 643, 648 (1980), where this Court held:

> "[I]t is virtually self-evident that extending interest-free credit for a period of time is equivalent to giving a discount [from the purchase price] equal to the value of the use of the purchase price for that period of time."

> tors to enjoy a further interest-free delay, during which time plaintiffs are not being compensated for the lost time-value of money due under the judgment in their favor. By allowing General Motors the interest-free use of delinquent payments, the court is depleting plaintiffs' real recovery as surely as if it had simply reduced the amount of their award."

The majority erroneously characterized damages for the delay in payment of postjudgment interest as an "illegal compounding of interest" and thus prohibited by federal law (11a).* The majority failed to distinguish between true compounding; namely, *periodic* conversion of interest into principle-drawing-interest, and our case; namely, interest as damages for failure to pay an amount incident

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* Moreover, the two Supreme Court cases, cited by the majority, are not on point (11a). *Brooklyn Bank v. O'Neil,* 324 U.S. 697, 715 (1945) involved an interpretation of the former Fair Labor Standards Act, 29 U.S.C. §216(b), which provided for the mandatory award of *liquidated* damages, in an amount equal to the actual damage award. The Supreme Court, construing the Congressional intent in that particular statute, held that a party may not recover both liquidated damages and prejudgment interest, regarding *liquidated* damages as a substitute for interest. *Doty v. Elias,* 733 F.2d 720 (10th Cir. 1984); *Blim v. Western Elec. Co. Inc.,* 731 F.2d 1473 (10th Cir. 1984); *Contra, Criswell v. Western Airlines, Inc.,* 709 F.2d 544 (9th Cir. 1983), *cert. granted,* 83 L.Ed.2d 28 (1984). See *Dobbs, supra,* at pp. 171-2: "The problem of duplicated . . . awards."

Cherokee Nation v. United States, 270 U.S. 476, 490 (1925) is also clearly distinguishable since the Supreme Court there stated:

> "The additional interest now claimed is sought really as *damages for the delay of Congress* in appropriating the sum due in 1895 as the United States promised in the 1891 agreement. But the rule *as to interest against the United States* does *not* allow us to adjudge interest as damages at all. Congress must expressly provide for it or the contract must so provide. The only contractual obligation here is for simple 5 percent interest until payment."

to a matured payment made. This is simply not a case of "illegal" compound interest. The rule is well stated in 10 ALR 3d 424, §2:

> "Compound interest, it has been said, means interest on interest whereby accrued interest is added periodically to the principal, and interest is computed on the new principal thus formed, and is to be *distinguished* from the mere allowance of interest on overdue installments of interest, which is not strictly compound interest." *

It is simply not the rule that compounding of interest is prohibited by federal law. As this Court stated in *Nat'l. Bank v. Mechanic's Nat'l. Bank*, 94 U.S. 437, 441 (1867), in approving interest on interest: "Numerous cases, both English and American, are to be found in which compound interest, under special circumstances was recovered. It is sufficient to refer to a few of them (citations omitted)."

Certainly the modern federal policy does not prohibit the compounding of interest. The current version of 28 U.S.C. §1961(b),** specifically mandates that postjudgment interest shall be *compounded* annually.

Consistent with this Court's previous decision in this case, the patent owner is not being made whole since plaintiffs have not received the value "of the foregone use of the money" (249a).

The decision below rewards GM for pursuing erroneous positions, both on prejudgment interest (its petition to this Court in *Devex*—its reason for opposing a prompt "determination" of the Delaware rate for postjudgment

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* Indeed, even compound interest in the true sense may be properly awarded under 35 U.S.C. §284 to accomplish full compensation. *Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 557 (Fed. Cir. 1984); *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 638 F.2d 661 (3d Cir. 1981).

** The postjudgment interest rate in this case was determined pursuant to former Section 1961.

interest) and on postjudgment interest (by its untenable contention that the Delaware statute, despite its facial clarity to the contrary, was limited to 6%).

The proper standard under federal law for allowing damages for delay in payment of postjudgment interest should be settled by this Court. Interest is mandated here under 28 U.S.C. §1961 where the defendant has withheld payment of postjudgment interest beyond the date when payment was due.

CONCLUSION

For the foregoing reasons, the Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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Dated: May 13, 1985